

Message Text

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ACTION TRSE-00

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TREASURY FOR REX BEACH

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SUBJ: ADB PROCUREMENT POLICY

FOLLOWING RESPONSE RECEIVED FROM SONG CHIL LEE RE YOUR
REQUEST FOR INFORMATION ON ADB POLICY CONCERNING ADVANCE
PAYMENT FOR EQUIPMENT CONTRACTS:

1. THE OPERATIVE PRINCIPLE GOVERNING ADVANCE PAYMENTS
UNDER BANK FINANCED CONTRACTS IS CONTAINED IN SEC 4.3
OF BANK'S GUIDELINES FOR PROCUREMENT UNDER ASIAN DEVELOP-
MENT BANK LOANS, TEXT OF WHICH IS QUOTED BELOW FOR EASE
OF REFERENCE:

"THE PERCENTAGE OF THE TOTAL PAYMENT TO BE MADE IN
ADVANCE UPON SIGNATURE OF THE CONTRACT FOR MOBILIZATION
EXPENSES SHOULD BE REASONABLE. OTHER ADVANCES TO BE
MADE, AS FOR EXAMPLE FOR MATERIALS DELIVERED TO THE SITE
FOR INCORPORATION IN THE WORKS, SHOULD ALSO BE CLEARLY
DESCRIBED IN THE CONTRACT DOCUMENTS."

2. THE TERM "ADVANCE PAYMENT" NORMALLY REFERS TO PAYMENTS
MADE IN ADVANCE OF DELIVERIES OF GOODS AND THEREFORE IN-
CLUDES BOTH (A) THE "DOWN PAYMENT" WHICH IS MADE USUALLY
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AFTER SIGNING OF THE CONTRACT AND THE SUBMISSION OF A

PERFORMANCE BOND OR GUARANTEE BY THE SUPPLIER, AND (B) "PROGRESS PAYMENTS" WHICH ARE RELATED TO THE PROGRESS MADE IN THE CONSTRUCTION PHASE OF THE CONTRACT. IT IS UNDERSTOOD FROM YOUR DISCUSSIONS WITH MR. KENNEDY THAT THE TERM "ADVANCE PAYMENT" MENTIONED IN YOUR MEMORANDUM REFERS TO "DOWN PAYMENTS" AS SUCH RATHER THAN TO "PROGRESS PAYMENTS".

3. THE REQUIREMENTS AS TO THE "DOWN PAYMENTS" AND "PROGRESS PAYMENTS", IF ANY, TO BE MADE BY THE PURCHASER UNDER SUPPLY CONTRACTS, ARE USUALLY INDICATED IN THE INVITATION DOCUMENTS SO AS TO OBTAIN BIDS FROM ALL SUPPLIERS ON A UNIFORM BASIS.

4. IN REGARD TO CONTRACTS FOR THE SUPPLY OF EQUIPMENT WHICH IS READILY AVAILABLE, PAYMENTS ARE NORMALLY MADE ON THE BASIS OF THE RECEIPT OF SHIPPING DOCUMENTS AND THUS NO ADVANCE PAYMENT IS INVOLVED. HOWEVER WHERE SPECIALIZED EQUIPMENT OR EQUIPMENT INVOLVING CONSIDERABLE SUB-CONTRACT EXPENSES OR AN EXTENDED MANUFACTURING PERIOD IS INVOLVED, IT APPEARS TO BE NORMAL COMMERCIAL PRACTICE TO MAKE BOTH "DOWN PAYMENTS" AND "PROGRESS PAYMENTS".

5. THE AMOUNT OF THE "DOWN PAYMENT" VARIES ACCORDING TO THE ITEM TO BE SUPPLIED AND THE COMMERCIAL PRACTICES FOLLOWED BY THE PURCHASER AND, IN THE BANK'S EXPERIENCE, SUCH DOWN PAYMENTS HAVE RANGED FROM 10 PERCENT TO 20 PERCENT OF TOTAL CONTRACT PRICE. THE BANK EXAMINES THIS ASPECT ON A CASE-BY-CASE BASIS WHEN APPROVING THE DRAFT CONTRACT DOCUMENTS FOR EACH SUPPLY CONTRACT.
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